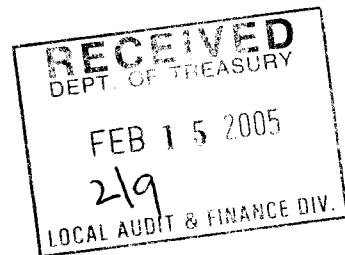


**CENTRAL OPERATIONS FOR
POLICE SERVICES**

**FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

September 30, 2004



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

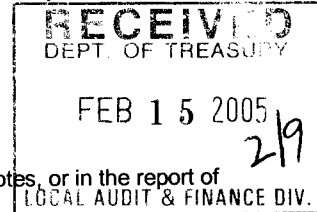
Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name CENTR. OPERATIONS FOR POLICE SERVICES	County MUSKEGON
Audit Date 9/30/04	Opinion Date 1/7/05	Date Accountant Report Submitted to State: 2/9/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations



You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) HMIOFFMAN, STEENSMA & PLAMONDON, P.L.C.			
Street Address 221 W. WEBSTER AVENUE, SUITE 502		City MUSKEGON	State MI
Accountant Signature <i>Douglas A. Plamondon, CPA</i>		ZIP 49440	
		Date 2/9/05	

CENTRAL OPERATIONS FOR POLICE SERVICES

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Central Operations for Police Services
Muskegon, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of Central Operations for Police Services (the "organization"), as of and for the year ended September 30, 2004, which collectively comprise the organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Central Operations for Police Services. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Central Operations for Police Services, as of September 30, 2004, and the results of operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note A to the financial statements, Central Operations for Police Services adopted the provisions of Governmental Accounting Standards Board (GASB) Statement 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments Omnibus* and GASB 38, *Certain Financial Statement Note Disclosures*, as of October 1, 2003.

The management's discussion and analysis and the required supplementary information on pages 4 - 9 and pages 28 - 30 respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Central Operations for Police Services' basic financial statements. The accompanying supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental financial information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hoffman, Steensma & Plamondon, P.L.C.

January 7, 2005

CENTRAL OPERATIONS FOR POLICE SERVICES

Management's Discussion and Analysis

Year Ended September 30, 2004

Our discussion and analysis of the Central Operations for Police Services' financial performance provides an overview of the organization's financial activities for the year ended September 30, 2004. Please read it in conjunction with the organization's financial statements, which begin on page 10.

The changes in the enclosed document have been mandated by the Governmental Accounting Standards Board (GASB) Statement 34. In the first year of implementation of this standard, GASB recognizes that prior-year information is not available in a similar format. Therefore, government-wide comparisons will not be available until next year.

Financial Highlights

- The organization's net assets increased \$1,355,216 (or 108.5%). The primary reason for the large increase is a property tax levy which brought in revenue of \$1,065,466. The levy is being used to repay contractual debt to Muskegon County which was incurred for the installation of a county wide fiber optic network and purchase of an integrated public safety data system. The repayment of long-term debt consumes the current financial resources of the organization but does not have any affect on net assets. In future periods as the capital assets purchased with the debt are depreciated, net assets will decrease.
- Total expenses of all the organization's programs were \$2,131,433.
- Total revenues of the organization, including all program and general revenues, were \$3,486,649.
- The property tax levy is designated by the Board of Directors to be used for the repayment of debt incurred for capital improvements that are part of a three phase project.
- The first phase which is still ongoing includes the installation of a county wide fiber optic network and purchase of an integrated public safety data system package. A contract payable in the amount of \$2,839,041 was entered into December 2003 for those related expenditures.
- The second phase involves the hardware and software solutions to utilize the new data system package. A contract payable in the amount of \$1,605,959 was entered into December 2003 for those related expenditures.
- The contracts payable proceeds are maintained in a restricted account at National City Bank where invoices are paid as expenditures are incurred. The restricted account balance is invested in a money market account that earns a low rate of interest to reduce the cost of borrowing the money. The restricted account balance represents funds available for capital purchases in future phases of the project.
- The third and final project phase, including future borrowings, has been deferred to the 2006-07 fiscal year budget.

Using this Annual Report

This annual report consists of a series of financial statements. The first two statements are government-wide financial statements that provide both long-term and short-term information about the organization's overall financial status. The remaining statements are fund financial statements that focus on the governmental activities of the organization, reporting individual operations in more detail than the government-wide statements. The governmental fund statements tell how organization services were financed in the short-term as well as what remains for future spending.

CENTRAL OPERATIONS FOR POLICE SERVICES

Management's Discussion and Analysis - Continued

Year Ended September 30, 2004

Reporting the Organization as a Whole

Our analysis of the organization as a whole begins on page 6. One of the most important questions asked about the organization's finances is, "Is the organization as a whole better off or worse off as a result of the year's activities?" Since this is the first year that the organization is reporting its financial statements under the GASB 34 format, this question can not be entirely answered because comparison data does not exist. However, the statement of net assets and the statement of activities report information about the organization as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above, report the organization's net assets and changes in them. The reader can think of the organization's net assets - the difference between assets and liabilities - as one way to measure the organization's financial health or financial position. Over time, increases or decreases in the organization's net assets are one indicator of whether its financial health is improving or deteriorating. The reader will need to consider other non-financial factors, however, to assess the overall health of the organization.

Reporting the Organization's Governmental Fund

Our analysis of the organization's major funds begins on page 8. The fund financial statements begin on page 11 and provide detailed information about the governmental fund - not the organization as a whole. All of the organization's services are reported in the governmental fund, which focus on how money flows into and out of the organization and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the organization's general governmental operations and the basic service it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the organization's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and the governmental fund in a reconciliation following the fund financial statements.

CENTRAL OPERATIONS FOR POLICE SERVICES

Management's Discussion and Analysis - Continued

Year Ended September 30, 2004

The Organization as a Whole

The organization's combined net assets increased from a year ago, from \$1,249,049 to \$2,604,265. Our analysis focuses on the net assets and changes in net assets of the organization's governmental activities.

Net assets as of September 30, 2004, are as follows:

	Governmental Activities
Current and other assets	\$ 5,844,859
Capital assets	1,559,534
Total assets	\$ 7,404,393
Long-term liabilities	\$ 4,183,841
Other liabilities	616,287
Total liabilities	\$ 4,800,128
Net assets	
Invested in capital assets	\$ 437,492
Restricted	1,226,902
Unrestricted	939,871
Total net assets	\$ 2,604,265

Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, were \$939,871. Restricted net assets, those restricted mainly for debt service and special purposes such as wireless surcharges, were \$1,226,902. The investment in capital assets, net of outstanding debt, was \$437,492.

CENTRAL OPERATIONS FOR POLICE SERVICES

Management's Discussion and Analysis - Continued

Year Ended September 30, 2004

The Organization as a Whole (continued)

Changes in net assets as of September 30, 2004 are as follows:

	<u>Governmental Activities</u>
Revenues	
Program revenues	
Member assessments	\$ 1,413,953
Emergency telephone surcharge	715,255
Wireless surcharge	215,455
Wireless surcharge training	11,130
Reimbursements	21,460
General revenues	
Property taxes	1,065,466
Interest	43,826
Other	104
Total revenues	3,486,649
Expenses	
Public safety	2,041,674
Interest on long-term debt	89,759
Total expenses	2,131,433
 Change in net assets	 1,355,216
 Net assets at beginning of year	 1,249,049
 Net assets at end of year	 \$ 2,604,265

Governmental Activities

Since this is the first year reporting under the GASB 34 format, there is not complete prior year data to compare to this year's figures.

Member assessments are based on population, taxable value and calls for service and are charged to members' police and fire agencies in Muskegon County. For the past two budget years, there has been a freeze on member assessments with the total revenues approximately the same. However, the individual member's contributions have changed slightly according to their updated information applied to the formula.

The telephone surcharge has seen slight decreases but the wireless surcharge and wireless surcharge training monies have increased due to the increase in the number of cell phones used.

The reimbursement in the amount of \$21,460 was an insurance claim for the damage caused by a lightning strike at our tower site.

CENTRAL OPERATIONS FOR POLICE SERVICES

Management's Discussion and Analysis - Continued

Year Ended September 30, 2004

The Organization as a Whole (continued)

The expenditures for public safety are related to the cost of providing emergency police, fire and medical services to Muskegon County. This includes all personnel and equipments costs related to the 9-1-1 operation. The wireless monies are restricted in their use and are spent according to the regulations established for those funds, i.e., personnel costs.

Property taxes reflect the millage amount levied and collected to fund the debt incurred for capital improvements as mentioned earlier. The interest earned will decrease as expenditures are made for capital assets.

Net assets will not continue to increase proportionately to the expenditures as they are offset by the depreciation of the capital assets that they are meant to replace.

Financial Analysis of the Organization's Fund

At the end of fiscal year 2004, the governmental fund reported a fund balance of \$5,196,891 which is \$3,779,232 more than last year.

Total governmental fund revenues increased \$434,571 (or 14.2%) and expenditures increased by \$2,034,415 (or 96%).

The reserved and unreserved general fund balance has increased \$233,000 for the fiscal year 2004.

Governmental Fund Budgetary Highlights

The increase of fund revenues and expenditures were related to the capital improvement project that is underway within our organization.

Over the course of the year, the Board of Directors amended the organization's budget. The most significant of these budget amendments involved correcting prior estimates and assumptions and reducing the amount of overall expenditures to reflect the current operations.

Capital Asset and Debt Administration

Capital Assets

At September 30, 2004, the organization had \$1,559,534 invested in capital assets including communications equipment, computer equipment and office equipment and furniture. This amount includes a net increase (including additions and deductions) of \$1,334,696 (or 593.6%) over last year. Major capital additions include a fiber optic network for county wide connectivity, an Integrated Public Safety Data System and the hardware necessary to create the network for the software to operate on. Additional information on capital assets can be found in note C on page 22 of the notes to the financial statements.

CENTRAL OPERATIONS FOR POLICE SERVICES

Management's Discussion and Analysis - Continued

Year Ended September 30, 2004

Capital Asset and Debt Administration (continued)

Long-Term Debt

At September 30, 2004, the organization had \$4,183,841 in long-term debt outstanding. This is an increase of \$3,790,393 from last year. Outstanding debt includes installment purchase agreements with commercial banks and contracts payable to Muskegon County. During 2004, the organization funded the contractual obligations in the amount of \$4,445,000. Additional information can be found in note D on page 23 of the financial statements.

Economic Factors and Next Year's Budgets and Rates

The 2004-05 fiscal year budget emphasizes the completion of the current project that is in progress. The loan proceeds held at National City Bank will be spent to acquire the capital assets, according to outstanding purchase agreements, necessary to complete the project.

The current funding freeze on member assessments will continue as the member agencies are experiencing the effects of reduced state revenue sharing. The operational surcharge for wire line access will decrease and the wireless surcharge will increase slightly. This fluctuation is anticipated in equal proportions as more home phone line services are being replaced with wireless phones.

There are no other planned changes anticipated for the operation of the agency.

Contacting the Organization's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the organization's finances and to demonstrate the organization's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Executive Director's Office at 860 Terrace Street, Muskegon, Michigan 49443.

CENTRAL OPERATIONS FOR POLICE SERVICES

Statement of Net Assets

September 30, 2004

ASSETS

Cash and cash equivalents (note A5 and B)	\$ 1,879,677
Accounts receivable	130,039
Due from other governmental units	26,130
Prepaid items (note A7)	13,845
Restricted cash and cash equivalents (note A8 and B)	3,763,487
Deferred debt expense (note A11)	31,681
	<u>5,844,859</u>

Capital assets (note A9 and C)	
Construction in progress	1,474,816
Other capital assets, net of depreciation	84,718
Total capital assets	<u>1,559,534</u>

TOTAL ASSETS	\$ 7,404,393
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LIABILITIES AND NET ASSETS

Liabilities	
Accounts payable	\$ 506,988
Accrued liabilities	41,864
Deferred revenue	67,435
	<u>616,287</u>

Long-term liabilities (note A10, A11 and D)	
Due within one year	
Bonds and loans payable	80,482
Contracts payable	843,108
Compensated absences	11,437
Due in more than one year	
Bonds and loans payable	15,213
Contracts payable	3,130,667
Compensated absences	102,934
Total long-term liabilities	<u>4,183,841</u>
Total liabilities	<u>4,800,128</u>

Net assets	
Invested in capital assets, net of related debt	437,492
Restricted for	
Wireless surcharge costs	12,473
Wireless surcharge training costs	13,850
Debt service	1,200,579
Unrestricted	939,871
Total net assets	<u>2,604,265</u>

TOTAL LIABILITIES AND NET ASSETS	\$ 7,404,393
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The notes to the financial statements are an integral part of this statement.

CENTRAL OPERATIONS FOR POLICE SERVICES

Statement of Activities

Year Ended September 30, 2004

Program expenses	
Public safety	\$ 2,041,674
Interest on long-term debt	89,759
Total program expenses	2,131,433
Program revenues	
Member assessments	1,413,953
Emergency telephone surcharge	715,255
Wireless surcharge	215,455
Wireless surcharge training	11,130
Reimbursements	21,460
Total program revenues	2,377,253
Net program revenues	245,820
General revenues	
Property taxes	1,065,466
Interest	43,826
Other	104
Total general revenues	1,109,396
Change in net assets	1,355,216
Net assets at beginning of year	1,249,049
Net assets at end of year	\$ 2,604,265

The notes to the financial statements are an integral part of this statement.

CENTRAL OPERATIONS FOR POLICE SERVICES

Governmental Fund

Balance Sheet

September 30, 2004

ASSETS

Cash and cash equivalents (note A5 and B)	\$	1,879,677
Accounts receivable		130,039
Due from other governmental units		26,130
Prepaid items (note A7)		13,845
Restricted cash and cash equivalents (note A8 and B)		3,763,487

TOTAL ASSETS	\$	5,813,178
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LIABILITIES AND FUND BALANCE

Liabilities

Accounts payable	\$	506,988
Accrued liabilities		41,864
Deferred revenue (note A3)		67,435
Total liabilities		616,287

Fund balance (note A12)

Reserved for prepaid items		13,845
Reserved for debt service		1,200,579
Reserved for capital projects		2,915,747
Reserved for wireless surcharge costs		12,473
Reserved for wireless surcharge training costs		13,850
Unreserved		
Undesignated		1,040,397
Total fund balance		5,196,891

TOTAL LIABILITIES AND FUND BALANCE	\$	5,813,178
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The notes to the financial statements are an integral part of this statement.

CENTRAL OPERATIONS FOR POLICE SERVICES

Reconciliation of Total Governmental Fund Balance to

Net Assets of Governmental Activities

September 30, 2004

Total governmental fund balance		\$ 5,196,891
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund.		
Governmental capital assets	\$ 3,824,890	
Accumulated depreciation	(2,265,356)	1,559,534
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental fund.		
Debt issuance costs		31,681
Long-term liabilities, including bonds and contracts payable, are not due and payable in the current period and therefore are not reported in the governmental fund.		
Governmental bonds payable	(95,695)	
Contracts payable	(3,973,775)	
Compensated absences	(114,371)	(4,183,841)
Net assets of governmental activities		\$ 2,604,265

The notes to the financial statements are an integral part of this statement.

CENTRAL OPERATIONS FOR POLICE SERVICES

Governmental Fund

Statement of Revenues, Expenditures and Changes in Fund Balance

Year Ended September 30, 2004

Revenues	
Property taxes	\$ 1,065,466
Member assessments	1,413,953
Emergency telephone surcharge	715,255
Wireless surcharge	215,455
Wireless surcharge training	11,130
Interest	43,826
Other	21,564
Total revenues	3,486,649
Expenditures	
Current	
Public safety	1,957,401
Capital outlay	1,408,236
Debt service	
Principal	657,376
Interest and fiscal charges	89,759
Debt issuance costs	39,645
Total expenditures	4,152,417
Deficiency of revenues under expenditures	(665,768)
Other financing sources	
Contracts payable proceeds	4,445,000
Excess of revenues and other sources over expenditures	3,779,232
Fund balance at beginning of year	1,417,659
Fund balance at end of year	\$ 5,196,891

The notes to the financial statements are an integral part of this statement.

CENTRAL OPERATIONS FOR POLICE SERVICES

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund

Balance of the Governmental Fund to the Statement of Activities

Year Ended September 30, 2004

Net change in fund balance - total governmental fund	\$ 3,779,232
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Amounts reported for governmental activities in the statement of activities are different because:

The governmental fund reports capital outlays as expenditures.

However, in the statement of activities, the cost of these assets is depreciated over their estimated useful lives.

Expenditures for capital assets	\$ 1,408,236	
Current year depreciation	<u>(73,540)</u>	1,334,696

The issuance of long-term debt provides current financial resources to the governmental fund, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental fund. Neither transaction, however, has any effect on net assets. Also, the governmental fund reports the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Debt proceeds	(4,445,000)	
Debt issuance costs	39,645	
Principal payments	657,376	
Amortization of debt issuance costs	(7,964)	
Change in long-term compensated absences	<u>(2,769)</u>	(3,758,712)

Change in net assets of governmental activities	\$ 1,355,216
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The notes to the financial statements are an integral part of this statement.

CENTRAL OPERATIONS FOR POLICE SERVICES

Notes to Financial Statements

September 30, 2004

Note A - Summary of Significant Accounting Policies

The accounting policies of Central Operations for Police Services (the "organization") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The more significant accounting policies establishing GAAP and used by the organization are discussed below.

The organization adopted GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments Omnibus* as of October 1, 2003. Certain of the significant changes in GASB 34 include the following:

- A Management's Discussion and the Analysis (MD&A) section providing an analysis of the organization's overall financial position and results of operation.
- Government-wide financial statements prepared using full accrual accounting for all of the organization's activities, including capital assets.
- A change in the fund financial statements to focus on major funds.

The organization also adopted GASB 38, *Certain Financial Statement Note Disclosures*, as of October 1, 2003. GASB 38 modifies note disclosures required by GAAP. The adoption of this change in accounting principles had no effect on the financial condition or result of operations of the organization's fund as of and for the year ended September 30, 2004, but did change some of the disclosures required for the notes to the financial statements.

1. Financial Reporting Entity

Central Operations for Police Services was organized as a joint venture under the provisions of the Urban Cooperation Act of 1967, by several local governmental units of Muskegon County. Its purpose is to provide central dispatch for police and fire protection services to the residents of the participating units. The organization is governed by representatives from each of the member units. Revenues of the organization include prorated assessments to member municipalities to cover projected operating expenditures for the ensuing year, an emergency telephone surcharge levied on telephone users and property taxes.

As required by GASB 14, the financial statements present the organization (the primary government) and its component units, entities for which the organization is considered to be financially accountable. Component units are included in the reporting entity when there are significant operational and financial relationships with the organization. Based upon the application of these criteria, there were no component units required to be included as part of the financial statements of the organization.

CENTRAL OPERATIONS FOR POLICE SERVICES

Notes to Financial Statements - Continued

September 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

2. Basis of Accounting - Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the organization as a whole. They include all funds of the reporting entity. These statements distinguish between activities that are governmental and those that are considered business-type activities. Currently, all organization activity is considered governmental.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach differs from the manner in which the governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the organization.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available, it is the organization's policy to use restricted resources first, then unrestricted resources as they are needed.

3. Basis of Accounting - Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into three major categories: governmental, proprietary and fiduciary. The organization has only one fund, the general fund, which is a governmental fund. The focus of governmental financial statements is on major funds rather than reporting funds by type. The organization's only fund is a major fund.

The organization reports the following major fund:

General Fund

The general fund is the general operating fund of the organization. The fund is used to account for all financial transactions except those required to be accounted for in another fund. Revenues are derived primarily from member assessments, an emergency telephone surcharge and property taxes.

CENTRAL OPERATIONS FOR POLICE SERVICES

Notes to Financial Statements - Continued

September 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

3. Basis of Accounting - Fund Financial Statements (continued)

The following is a description of the governmental category:

Governmental Fund

The governmental fund is accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become susceptible to accrual (i.e., when they become both measurable and available). Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

"Measurable" means the amount of the transaction can be determined and "available" means collectable within the current period or soon enough thereafter to be used to pay liabilities of the current period. The organization considers property taxes, member assessments, telephone surcharges and interest revenue as susceptible to accrual if the amount was due on or before fiscal year end and collection was within two months of year end. Reimbursements due for expenditure-driven grants are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made. All other revenue is recognized as payments are received.

Expenditure Recognition

The measurement focus of governmental accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental fund.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles. The organization follows these procedures in establishing the budgetary data reflected in the financial statements:

- The director of the organization submits a proposed operating budget for the fiscal year commencing the following October 1 to the board of directors. The operating budget includes proposed expenditures and the means of financing them.
- Prior to September 30, the budget and annual appropriations are legally adopted by the board of directors.
- Budgeted amounts are presented as originally adopted, or as amended by the board of directors before September 30, 2004. Individual amendments were made to reflect changes in planned expenditures.
- Formal budget integration is employed as a management control device during the year for the general fund.

CENTRAL OPERATIONS FOR POLICE SERVICES

Notes to Financial Statements - Continued

September 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

4. Budgets and Budgetary Accounting (continued)

- Budgetary control is exercised at the department level.
- Budgets as presented are prepared on the modified accrual basis of accounting.
- All budget appropriations lapse at year end.

5. Deposits and Investments

Statutes authorize the organization to deposit and invest in the following:

- In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
- In certificates of deposit, saving accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation, a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
- In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- In United States government or federal agency obligation repurchase agreements.
- In banker's acceptance of United States banks.
- In obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The board of directors has authorized the organization to invest in the Muskegon County Cash and Investment Pool. The organization's investment in this system is classified as 'cash equivalents' on the balance sheet.

Investments with a maturity of greater than one year at the date of purchase are stated at fair value, and all other investments are stated at cost or amortized cost.

6. Property Taxes

Property taxes attach as enforceable liens on property as of December 31. Taxes are levied on December 1 and are payable from the date of levy through February 28 and are recognized as revenue when they are levied. The county bills, collects and remits the organization's property taxes.

CENTRAL OPERATIONS FOR POLICE SERVICES

Notes to Financial Statements - Continued

September 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

6. Property Taxes (continued)

The 2003 adjusted taxable value of the county totaled \$3,592,337,108 on which ad valorem taxes levied consisted of .3000 mills for the general operations of the organization.

The 2003 state equalized valuation of the county was \$4,594,019,022.

7. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

8. Restricted Assets

Proceeds of contracts payable are restricted for capital improvements.

9. Capital Assets and Depreciation

Capital assets, which include furniture and equipment, are reported in the government-wide financial statements. Capital assets are defined by the organization as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or construction. Contributed assets are recorded at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are also capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

	<u>Years</u>
Communications equipment	5 - 15
Computer equipment	5 - 7
Office equipment and furniture	5 - 15

10. Compensated Absences

The organization's employees are granted vacation and sick leave. The organization follows the accounting and reporting principles outlined in GASB 16, with regards to employee vacation and sick leave.

Unused vacation and sick leave days are paid to employees upon termination under limits that vary.

The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, a liability for these amounts is reported in the governmental fund only for employee terminations as of year end.

CENTRAL OPERATIONS FOR POLICE SERVICES

Notes to Financial Statements - Continued

September 30, 2004

Note A - Summary of Significant Accounting Policies (continued)

11. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities. Debt premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt using the effective interest method. Contracts payable are reported net of the applicable debt premium or discount. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, the governmental fund recognizes debt premiums and discounts, as well as debt issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

12. Fund Equity

In the fund financial statements, the governmental fund reports reservations of fund balance for amounts that are not available for appropriation or are legally segregated for a specific purpose. Reserves exist for prepaid items as those items will be expended in subsequent years.

Note B - Cash Equivalents and Investments

Investments

Investments are categorized below to give an indication of the level of risk assumed by the entity at year end:

- Category 1 includes investments that are insured or registered, or for which the securities are held by the organization or its agent in the organization's name.
- Category 2 includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in the organization's name.
- Category 3 includes uninsured and unregistered investments, with securities held by the counterparty, or by its trust department or agent but not in the organization's name.

	Carrying Amount
Investments not subject to categorization:	
Investment pool	\$ 1,879,677
Money market	3,763,487
	<u>\$ 5,643,164</u>

CENTRAL OPERATIONS FOR POLICE SERVICES

Notes to Financial Statements - Continued

September 30, 2004

Note B - Cash Equivalents and Investments (continued)

Total deposits and investments at September 30, 2004 were \$5,643,164 and are presented as follows:

Balance Sheet Classification	Combined Total
Governmental Funds Balance Sheet	
Cash and cash equivalents	\$ 1,879,677
Restricted cash and cash equivalents	3,763,487
	<u>\$ 5,643,164</u>

Note C - Capital Assets

Capital asset activity for the year ended September 30, 2004 was as follows:

	Balance October 1, 2003	Additions	Deletions	Balance September 30, 2004
Governmental activities				
Capital assets being depreciated				
Communications equipment	\$ 619,485	\$ 8,204	\$ -	\$ 627,689
Computer equipment	1,640,166	36,791	-	1,676,957
Office equipment and furniture	44,155	1,273	-	45,428
Total capital assets being depreciated	2,303,806	46,268	-	2,350,074
Less accumulated depreciation				
Communications equipment	591,032	9,940	-	600,972
Computer equipment	1,581,360	58,317	-	1,639,677
Office equipment and furniture	19,424	5,283	-	24,707
Total accumulated depreciation	2,191,816	73,540	-	2,265,356
Net capital assets being depreciated	111,990	(27,272)	-	84,718
Capital assets not being depreciated				
Construction in progress	112,848	1,390,516	(28,548)	1,474,816
Total net capital assets	\$ 224,838	\$ 1,363,244	\$ (28,548)	\$ 1,559,534

All depreciation expense was charged to public safety.

Construction Commitments

As of September 30, 2004, the organization had approved bids associated with equipment upgrades of \$3,914,108. Construction costs of \$910,523 have been incurred on these bids by September 30, 2004, with \$819,287 of those expenditures actually paid.

CENTRAL OPERATIONS FOR POLICE SERVICES

Notes to Financial Statements - Continued

September 30, 2004

Note D - Long-Term Debt

Long-term debt at September 30, 2004, consisted of the following:

Governmental Activities

\$380,000 - Equipment obligation - 95269783; monthly installments of \$4,030 including interest through November 2004; interest at 5.00%. \$ 10,529

\$296,739 - Equipment obligation - 95565586; monthly installments of \$5,626 including interest through October 2004; interest at 5.19%. 6,518

\$83,075 - Equipment obligation - 95732095; monthly installments of \$1,573 including interest through July 2006; interest at 5.14%. 32,814

\$2,839,041 - Contract payable - Muskegon County; monthly installments of \$44,100 to \$50,632 through December 2008; interest at 3.34%. 2,442,141

\$1,605,959 - Contract payable - Muskegon County; monthly installments of \$24,775 to \$28,836 through June 2009; interest at 4.12%. 1,531,634

\$245,409 - Equipment obligation - 1000102033; monthly installments of \$4,702 including interest through August 2005; interest at 5.63%. 45,834

Total bonds, loans and contracts payable 4,069,470

Long-term compensated absences 114,371

Total governmental activities long-term liabilities \$ 4,183,841

The annual requirement to amortize all bonds, loans and contracts outstanding as of September 30, 2004, including interest of \$345,704 follows:

Years ending September 30,	<u>Governmental Activities</u>	
	Principal	Interest
2005	\$ 923,590	\$ 135,232
2006	889,449	102,022
2007	906,105	68,289
2008	938,958	34,758
2009	411,368	5,403
	\$ 4,069,470	\$ 345,704

The following is a summary of bonds, loans, contracts and compensated absences transactions for the year ended September 30, 2004:

	Balance October 1, 2003	Additions	Repayments	Balance September 30, 2004
Governmental bonds and loans	\$ 281,846	\$ -	\$ (186,151)	\$ 95,695
Contracts payable	-	4,445,000	(471,225)	3,973,775
Long-term compensated absences	111,602	2,769	-	114,371
	\$ 393,448	\$ 4,447,769	\$ (657,376)	\$ 4,183,841

CENTRAL OPERATIONS FOR POLICE SERVICES

Notes to Financial Statements - Continued

September 30, 2004

Note D - Long-Term Debt (continued)

The above loans and contracts are collateralized by various equipment held by the organization. There are a number of limitations and restrictions contained in the various indentures. The organization is in substantial compliance with all significant limitations and restrictions.

The contracts payable to Muskegon County (County) are part of an agreement that the County pledges revenue that will be generated from the special millage approved by the voters to repay bank installment loan contracts that the County has obtained in the maximum amount of \$6,645,000, so long as the debt proceeds are for the purchase of equipment and other capital items.

The contracts payable to Muskegon County are identical to the repayment terms of the installment loan contracts that the County has obtained with a bank.

In addition, the organization has agreed to indemnify and hold the County, its agent, instrumentalities and officers harmless against any liabilities which might be imposed as a result of any deficiency of the funding generated from the application of voted millage revenue.

Note E - Operating Lease Commitments

The organization conducts its operations in office facilities leased under a five-year operating lease which expires on May 31, 2007. The lease payments, under this lease, for the period were \$19,055. The organization also leases equipment under a variety of operating leases. Equipment lease payments, under these leases, for the period were \$3,658.

Minimum future lease commitments are as follows:

Years ending September 30,		
2005	\$	21,789
2006		22,458
2007		15,772
2008		2,400
2009		800
	\$	63,219

Note F - Defined Benefit Pension Plan

Description of Plan and Plan Assets

The organization is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, non-duty and duty death allowances and post-retirement adjustments to plan members and their beneficiaries. The most recent period for which actuarial data was available was for the year ended December 31, 2003.

CENTRAL OPERATIONS FOR POLICE SERVICES

Notes to Financial Statements - Continued

September 30, 2004

Note F - Defined Benefit Pension Plan (continued)

Description of Plan and Plan Assets (continued)

MERS was organized pursuant to Section 12a of Act 156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a)), as amended, State of Michigan. MERS is regulated under Act 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplemental information for the retirement system. That report may be obtained by writing to Municipal Employees Retirement System of Michigan, 447 Canal Road, Lansing, MI 48917-9755.

Funding Policy

MERS members are required to contribute 4.70% of annual covered payroll. The organization is required to contribute at an actuarially determined rate; the current rate is 3.85% to 5.59% of annual covered payroll. The contribution requirements of plan members and the organization are established and may be amended by MERS.

Annual Pension Cost

For the year ended September 30, 2004, the organization's contributions were \$39,864 in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2002. The employer contribution rate has been determined using the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used included (a) 8.0% long-term net investment rate of return, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation (c) additionally projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement for certain benefits. The actuarial value of MERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

Fiscal Year Ended September 30,	Trend Information		Net Pension Obligation
	Annual Pension Cost (APC)	Percentage of APC Contributed	
2002	\$ 2,289	100 %	\$ -
2003	13,870	100 %	-
2004	39,864	100 %	-

CENTRAL OPERATIONS FOR POLICE SERVICES

Notes to Financial Statements - Continued

September 30, 2004

Note G - Risk Management

The organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The organization manages its liability and property risk by participating in Michigan Municipal League Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The organization pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The organization manages its workers' compensation risk by participating in the Michigan Municipal League Workers' Compensation Self-Insurance Fund (MMWCSIF), a public entity risk pool providing workers' compensation coverage to its participating members. The organization pays an annual premium to MMWCSIF for its workers' compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The organization carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note H - Contingent Liabilities

The organization is party to various legal proceedings and claims which normally occur in government operations. Although the outcome of the legal proceedings and claims is not presently determinable, it is the opinion of the organization's management that the resolution of these matters will not have a material adverse effect on the financial condition of the organization.

Note I - Excess of Expenditures over Appropriations in Budgetary Funds

P.A. 621 of 1978, section 18(1) as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2004, the organization incurred expenditures in certain budgetary funds which were significantly in excess of the amounts appropriated as follows:

Fund	Amended Budget	Amount of Expenditures	Budget Variance
General			
Capital outlay	\$ 268,150	\$ 1,408,236	\$ (1,140,086)
Debt service	680,764	786,780	(106,016)

All expenditures over appropriations have been paid by the reduction of the current fund balance.

REQUIRED SUPPLEMENTARY INFORMATION

CENTRAL OPERATIONS FOR POLICE SERVICES

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -

Budget and Actual

Year Ended September 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues				
Property taxes	\$ 1,028,594	\$ 1,065,465	\$ 1,065,466	\$ 1
Member assessments	1,396,862	1,396,862	1,413,953	17,091
Emergency telephone surcharge	738,500	716,650	715,255	(1,395)
Wireless surcharge	196,000	212,000	215,455	3,455
Wireless surcharge training	8,830	11,130	11,130	-
Interest	21,000	24,250	43,826	19,576
Other				
Reimbursements	-	29,506	21,460	(8,046)
Other	700	200	104	(96)
Total other	700	29,706	21,564	(8,142)
Total revenues	3,390,486	3,456,063	3,486,649	30,586
Expenditures				
Current				
Public safety				
Personnel				
Salaries and wages	1,055,230	1,060,000	1,060,064	(64)
Overtime	81,120	65,000	54,360	10,640
Payroll taxes	82,604	88,500	87,335	1,165
Payroll benefits	357,967	347,056	316,149	30,907
Longevity	11,950	7,300	7,233	67
Total personnel	1,588,871	1,567,856	1,525,141	42,715
Maintenance and operation				
Printing	250	250	233	17
Paper, supplies and postage	13,350	10,850	10,357	493
Contractual services	6,000	2,300	3,897	(1,597)
Publications and dues	1,500	1,650	1,618	32
Professional services	25,400	29,038	29,022	16
Communications	5,000	18,000	18,096	(96)
Telephone	75,000	68,000	67,402	598
Conferences and seminars	1,000	500	348	152
Travel expenses	6,700	6,000	5,454	546
Advertising	1,700	1,000	969	31
Liability insurance	52,000	48,534	48,534	-

CENTRAL OPERATIONS FOR POLICE SERVICES

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance -

Budget and Actual - Continued

Year Ended September 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Expenditures (continued)				
Current (continued)				
Public safety (continued)				
Maintenance and operation (continued)				
Utilities	\$ 7,000	\$ 4,800	\$ 4,957	\$ (157)
Building maintenance	8,000	7,500	7,034	466
Equipment repairs and maintenance	245,000	195,000	181,194	13,806
Building rental	21,000	20,643	19,055	1,588
Equipment rental	10,000	4,500	3,658	842
Education and training	11,830	7,500	7,262	238
Software	1,001,000	1,000	738	262
Miscellaneous	2,000	1,500	1,569	(69)
Administrative expense	24,000	21,000	20,863	137
Total maintenance and operation	1,517,730	449,565	432,260	17,305
Total public safety	3,106,601	2,017,421	1,957,401	60,020
Capital outlay	3,083,432	268,150	1,408,236	(1,140,086)
Debt service				
Principal	784,108	576,878	657,376	(80,498)
Interest and fiscal charges	138,845	82,350	89,759	(7,409)
Debt issuance costs	-	21,536	39,645	(18,109)
Total debt service	922,953	680,764	786,780	(106,016)
Total expenditures	7,112,986	2,966,335	4,152,417	(1,186,082)
Excess (deficiency) of revenues over expenditures	(3,722,500)	489,728	(665,768)	(1,155,496)
Other financing sources				
Contracts payable proceeds	3,905,000	-	4,445,000	4,445,000
Excess of revenues and other sources over expenditures	182,500	489,728	3,779,232	3,289,504
Fund balance at beginning of year	1,417,659	1,417,659	1,417,659	-
Fund balance at end of year	\$ 1,600,159	\$ 1,907,387	\$ 5,196,891	\$ 3,289,504

CENTRAL OPERATIONS FOR POLICE SERVICES

Schedule of Funding Progress

Municipal Employees Retirement System of Michigan

September 30, 2004

The information presented in the required supplementary schedule was determined as part of the actuarial valuation at the dates indicated.

Actuarial Valuation Date December 31,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Overfunded (Underfunded) AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2001	\$ 3,065,742	\$ 2,766,499	\$ 299,243	111%	\$ 809,493	0%
2002	3,078,851	2,997,404	81,447	103%	921,922	0%
2003	3,220,304	3,277,358	(57,054)	98%	979,680	6%

SUPPLEMENTAL FINANCIAL INFORMATION

CENTRAL OPERATIONS FOR POLICE SERVICES

General Fund

Schedule of Revenues and Expenditures - Wireless Surcharges

Year Ended September 30, 2004

Accounting for Enhanced 911-Emergency Services for Wireless Telephone Systems

P.A. 81 of 1999 was passed by the legislature in order to provide emergency 911 capability for wireless phones and to finance the new facilities and equipment that might be needed for such improvements through a user fee. It also re-established the Emergency Telephone Service Committee to provide technical assistance in formulating and implementing a 911 plan. The Emergency Telephone Service Committee requires that fees generated by the wireless surcharge be spent only on allowable costs as determined by the committee. Fees are also provided for training that must also be spent only on allowable costs.

The fees generated by the wireless surcharges and the costs of providing those services were as follows for the year ended September 30, 2004:

	Wireless Surcharge	Wireless Surcharge Training
Revenues		
Wireless surcharge	\$ 215,455	\$ 11,130
Interest	1,403	-
Total revenues	216,858	11,130
Expenditures		
Salaries and wages	152,649	-
Overtime	7,828	-
Payroll taxes	12,576	-
Payroll benefits	45,390	-
Longevity	1,042	-
Education and training	-	7,653
Total expenditures	219,485	7,653
Excess (deficiency) of revenues over expenditures	(2,627)	3,477
Reserved fund balance at beginning of year	15,100	10,373
Reserved fund balance at end of year	\$ 12,473	\$ 13,850

In accordance with the act, the excess of revenues over expenditures is shown in the general fund as reserved for wireless surcharge costs and reserved for wireless surcharge training costs.

CENTRAL OPERATIONS FOR POLICE SERVICES

General Fund

Schedule of Revenues and Expenditures - Reserved Fund Balance

Year Ended September 30, 2004

On November 5, 2002, the voters of Muskegon County approved a millage for up to .30 mills to provide funding for the operation, including capital improvements, of the organization. The organization has borrowed money through contracts payable to Muskegon County to fund capital improvements with the intent of repaying the borrowed money with the funds generated by the millage.

The monies generated by the millage and contracts payable and the corresponding expenditures for capital improvements and debt service were as follows for the year ended September 30, 2004:

	Reserved for Debt Service	Reserved for Capital Projects
Revenues		
Property taxes	\$ 1,065,465	\$ -
Interest	13,295	17,316
Total revenues	1,078,760	17,316
Expenditures		
Professional services	-	43,206
Capital outlay	-	1,390,516
Debt service		
Principal	471,225	-
Interest and fiscal charges	84,728	-
Total expenditures	555,953	1,433,722
Excess (deficiency) of revenues over expenditures	522,807	(1,416,406)
Other financing sources		
Contracts payable proceeds	-	4,445,000
Excess of revenues and other sources over expenditures	522,807	3,028,594
Reserved fund balance (deficiency) at beginning of year	677,772	(112,847)
Reserved fund balance at end of year	\$ 1,200,579	\$ 2,915,747

Because the contracts payable agreement commits the contract proceeds to specific capital improvements, all unspent contract proceeds will be shown as reserved for capital projects. The agreement with the County of Muskegon also provides that the funds generated by the voted millage be used to repay the contracts payable. Therefore, all unspent monies generated by the voted millage will be shown as reserved for debt service.

SCHEDULE OF INDEBTEDNESS

CENTRAL OPERATIONS FOR POLICE SERVICES

Schedule of Indebtedness

September 30, 2004 and 2003

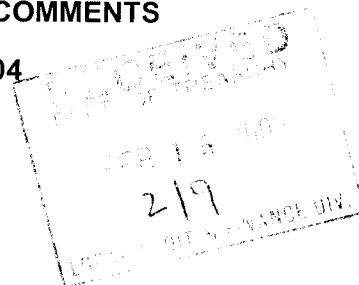
	Amount of Issue
Governmental Activities Bonds, Loans and Contracts Payable	
Equipment obligation - 95269783	\$ 380,000
Equipment obligation - 95565586	296,739
Equipment obligation - 95732095	83,075
Contract payable - Muskegon County	2,839,041
Contract payable - Muskegon County	1,605,959
Equipment obligation - 1000102033	245,409
Total Bonds, Loans and Contracts Payable	

Interest Rate	Date of Maturity	Balance Outstanding September 30,		Annual Interest Payable
		2003	2004	
5.00 %	2004	\$ 46,691	\$ -	\$ -
	2005	10,363	10,529	79
		<u>57,054</u>	<u>10,529</u>	<u>79</u>
5.19	2004	65,363	-	-
	2005	11,816	6,518	51
		<u>77,179</u>	<u>6,518</u>	<u>51</u>
5.14	2004	16,721	-	-
	2005	17,601	17,601	1,276
	2006	15,214	15,213	358
		<u>49,536</u>	<u>32,814</u>	<u>1,634</u>
3.34	2005	-	542,934	74,346
	2006	-	562,488	55,919
	2007	-	582,339	36,142
	2008	-	602,511	16,257
	2009	-	151,869	869
		<u>-</u>	<u>2,442,141</u>	<u>183,533</u>
4.12	2005	-	300,174	58,288
	2006	-	311,748	45,745
	2007	-	323,766	32,147
	2008	-	336,447	18,501
	2009	-	259,499	4,534
		<u>-</u>	<u>1,531,634</u>	<u>159,215</u>
5.63	2004	51,998	-	-
	2005	46,079	45,834	1,192
		<u>98,077</u>	<u>45,834</u>	<u>1,192</u>
		<u>\$ 281,846</u>	<u>\$ 4,069,470</u>	<u>\$ 345,704</u>

**CENTRAL OPERATIONS FOR
POLICE SERVICES**

**REPORT ON INTERNAL CONTROL
AND
MANAGEMENT ADVISORY COMMENTS**

September 30, 2004



CENTRAL OPERATIONS FOR POLICE SERVICES
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**Board of Directors
Central Operations for Police Services
Muskegon, Michigan**

In planning and performing our audit of the financial statements of Central Operations for Police Services for the year ended September 30, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the ability of the organization to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described on page 5 are believed to be a material weakness.

This report is intended solely for the information and use of the board of directors, management and others within the organization.

Hoffman, Steensma & Plamondon, P.L.C.

January 7, 2005

REPORTABLE CONDITION

CENTRAL OPERATIONS FOR POLICE SERVICES

Reportable Condition

September 30, 2004

CURRENT YEAR RECOMMENDATION

REPORTABLE CONDITION

Invoice Approval

During our examination, we noted that the organization was not budgeting for activity from the Muskegon County contracts payable agreement. As a result, the organization's expenditures exceeded the amounts appropriated which is a violation of Public Act 621 of 1978, section 18(1) as amended. We recommend that the organization budget all expenditures in the future.